Phnom Penh

Cambodia Real Estate

Highlights - 2nd half 2020

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ECONOMIC SNAPSHOT

Cambodia expected to recover from the global economic downturn with a GDP growth of 4% in 2021.

The unprecedented wave of the outbreak of Covid-19 caused sharp deceleration in the main engines of growth in the Cambodian economy in the first half of 2020 due to the rapidly increasing Covid-19 cases worldwide. The number of Covid-19 cases globally rose from 10.2 million at the end of H1 2020 to 83.4 million at the end of H2 in 2020.

In the light of the pandemic events and global macroeconomic trends, Cambodia faced several issues, particularly to its key sectors that have been hit hardest by the outbreak including tourism, construction, and garment manufacturing, which together accounted for more than 70% of growth and 39% of total paid employment in 2019.

Both the pandemic and the withdrawal from EBA by the European Union have negatively affected export growth of the kingdom, which fell by 2.5% during the first nine months of 2020.

Additionally, 60,000 jobs were lost in the textile sector. However, the government pushed forward with increasing the minimum wage to $192 per month for 2021, which is expected to negatively impact the economy by making exports less competitive and the World Bank estimated the value of Cambodian exports to the EU is expected to decline by between $513-$654 million per annum in 2021.

International tourist arrivals declined by 74.1% during the first nine months of 2020, bringing the tourism and hospitality sector to a virtual halt. The construction and real estate boom, which has relied heavily on foreign investment, was also impacted due to travel restrictions, and several large development projects were put on hold. This resulted in a contraction of 41.1% and 38.1% in steel and cement imports respectively during the first nine months of 2020 (figure 2).

ROSS WHEBLE
Country Head

"Cambodia's GDP growth rate is projected to register negative growth of -2% in 2020 due to the effect of the global health crisis, the slow down in major global economies, the loss of preferential trade agreement under the Everything-but-Arms (EBA), as well as the domestic macro-economic effects."

Figure 1: Macro overview

		2020	2021	2022
GDP Growth		-2.0	4.0	5.2
By Expenditure				
Private Consumption		-1.4	3.4	4.7
Government Consumption		6.7	8.6	5.8
Gross Fixed Capital Investment		6.3	6.1	7.1
Exports,Goods,and Services		-12.6	5.4	5.4
Imports,Goods,and Services		-8.9	5.5	5.4
By production				
Agriculture		1.5	0.9	1.0
Industry		-1.2	6.9	7.1
Services		-4.3	2.6	5.1

Source: World Bank Report 2020

Figure 2: Approved construction permit (y/y percent change)

Source: World Bank Report 2020

The above notwithstanding, green shoots started to emerge during the second half of 2020; thanks to the authorities' efforts and the management in controlling the local outbreak of the virus, Cambodia's economy started to recover and is gradually emerging from the tragedy of the global crisis.

To date, the country has avoided a health crisis and the government has allowed the reopening of schools and other businesses since the end of November. Travel restrictions were also relaxed in May 2020 and the downturn in international arrivals has also been partly offset by domestic tourism.

This has led to a recovery in domestic activity, although continues to be hampered by external shocks.

Thanks to the stable riel to U.S dollar exchange rate at 4,045 in December 2020 compared to 4,075 in December 2019, Inflation remained stable at 2.9% in September 2020, down from 3.1% at the end of 2019. The gross international reserves also increased from US$18.7 billion at the end of 2019 up to US$19.5 billion in June 2020.

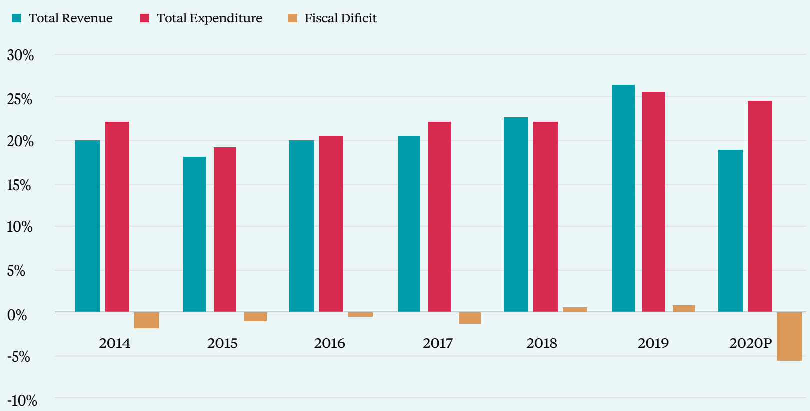
The current account deficit which was 10% of GDP in 2019 is projected to reach 12.8% of GDP in 2020 (figure 3).

This can be largely attributed to the increasing of government spending to support the local economy, inching up to 5% of GDP. Support package include health-related spending and income assistance, equity injections and loan guarantees, development spending, and tax relief. The World Bank report has stated that foreign direct investment is also expected to recover in 2021 (figure 4).

The non-performing loan rate remained stable at 2.31% in August, down from its peak of 2.61% in May. The National Bank of Cambodia will allow banks and financial institutions to continue to restructure loans until mid-2021, and as of November 15, 2020, approvals for loan restructuring totalling US$1.341 billion were provided to 274,536 clients representing 94% of the total restructuring requested. Four priority sectors for loan restructuring are tourism, garment, construction, transportation, and logistics.

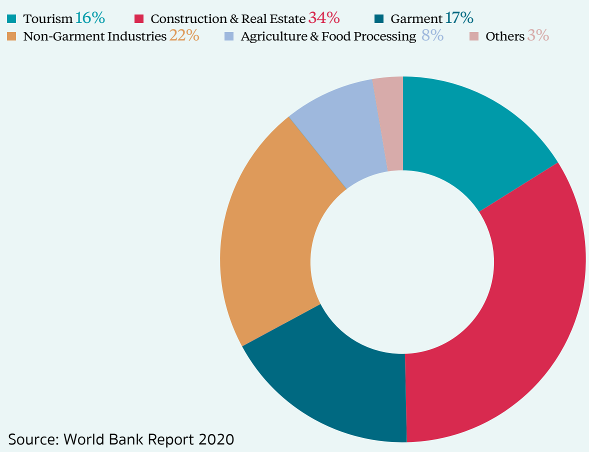
The announcement of the Free Trade Agreement between Cambodia and China on October 5, 2020, will mutually benefit both nations, which reflects the economic and diplomatic ties and bilateral trade cooperation and investments between the two countries. Through the FTA, the two countries aim to boost bilateral trade to US$10 billion by 2023.

Figure 3: General Government operations (% of GDP)



Source: World Bank Report 2020

Figure 4: Approved FDI Sector (US$ billion , January 2014-July 2020)



Source: World Bank Report 2020

PHNOM PENH OFFICE SECTOR

Average occupancy rates of offices in Phnom Penh across all grades dipped during H2 2020 due to subdued leasing activities stemming from global economic uncertainty. However, the announcement of the first crude oil extraction towards the end of 2020 will help to stimulate a prompt recovery to the nation's economy.

Key findings

Three small to medium-scale Grade C office buildings, namely One Building, AAA Tower and The 271 Tower completed during the second half of 2020 and contributed 21,229 sq m of net lettable area (NLA).

Although the pace of new office completions decelerated with an addition of 3.6% since H1 2020, occupancy rates still slid by 7.5 percentage points to 69.7%. Cumulative office supply in Phnom Penh was recorded at 609,939 sq m NLA as at H2 2020.

An additional 95,597 sq m NLA of offices was anticipated to complete during 2020 spread over six projects namely Golden Tower 42, Sathapana Tower, The Peak, CEO KT Pacific, Noble International and The Gateway. The completion dates of these projects have now been delayed to 2021 and 2022, further compounding to the large new supply on the horizon.

The long-awaited crude oil extraction by KrisEnergy commenced during H2 2020 and is anticipated to attract additional foreign investments and uplift the economy's sentiment.

271 Tower, Phnom Penh

Supply and Demand

Latest entries of office buildings during H2 2020 comprised only Grade C offices with a cumulative 21,229 sq m of NLA, namely One Building, AAA Tower and The 271 Tower, all of which are centrally-retained.

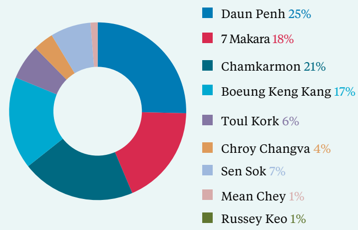
Demand for office space remained limited throughout the second half of 2020 and the vacancy rate increased due to the incoming supply. On the back of the global pandemic and economic uncertainty, corporates and businesses have approached expansion plans cautiously.

Only three new Grade C offices completed during the second half of 2020, namely One Building (2,091 sq m), AAA Tower (11,200 sq m) and The 271 Tower (7,938 sq m). Russey Keo is sited adjoining to Toul Kork and Sen Sok districts and recorded its first office supply with One Building whilst AAA Tower is sited in Boeung Keng Kang and The 271 Tower in Sen Sok. There was no new stock for Grade A or B offices completed during this period.

The cumulative office supply stood at 609,939 sq m as at H2 2020, which is a slight increase of 3.6% over H1 2020. However, by y-o-y comparison, 2020 recorded an increase of 18% since H2 2019.

Office supply across all grades for both centrally-retained and strata-title has been swelling over the years and this supply trend is anticipated to continue climbing beyond 1.3m sq m NLA over the next three years, equating to over 126% increase, assuming all projects complete as scheduled.

Figure 5: Existing supply by District



Source: Knight Frank Research

It was initially anticipated that six further large-scaled office developments would complete during 2020, namely Golden Tower 42, Sathapana Tower, The Peak, CEO KT Pacific, Noble International and The Gateway. These offices that comprise Grades A and B of both centrally-retained and strata-title, would have contributed an aggregate 95,597 sq m NLA if completed as scheduled. However, the completion dates of these developments have delayed to 2021 and 2022.

An additional 197,747 sq m NLA of office supply is expected to come on stream during 2021, a figure which will likely continue driving up vacancy rate.

Taking into account the abovementioned project delays, there will now be 197,747 sq m NLA of offices expected to come online during 2021, out of which 45,698 sq m is centrally-retained and 152,049 sq m is strata-title.

The existing split of centrally-retained and strata-title office is 85% and 15%, respectively. KVBC Business Centre was formally a strata-title office and meant to be sold to individual owners is now converted to a centrally-retained office. Despite the three new additions of

Grade C offices, Grade B still comprised the majority of office supply with 50% followed by Grade C (41%) and Grade A (9%). However, by the end of 2021, this trend may reverse as more than 67% of the incoming supply comprise Grade A offices, if all the on-going developments complete as scheduled.

More diverse occupier choice by the end of 2021 with large supply of Grade A and B offices.

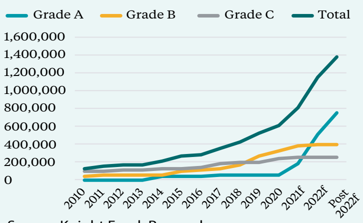
The large new supply on the horizon specifically for Grade A and B offices will not only provide a wider occupier choice, but also prompt businesses and corporates to thoroughly assess needs for expansions, relocations and lease renewal terms. Rental and occupancy rates will also face further compression due to the lackluster leasing velocity with the on-going global pandemic.

Existing supply still concentrated within city centre location as opposed to suburban location.

Daun Penh, encompassing the CBD, recorded the highest concentration of office stock with 25.3% of the overall supply, followed by Chamkarmon with 20.7%, 7 Makara with 18.2%, Boeung Keng Kang with 16.7% and Toul Kork with 6.4%. Meanwhile in Suburban location, office supply in Sen Sok accounts for 7.4%, Meanchey 1.3%, Chroy Changva 3.7% and Russey Keo 0.3%.

The latest addition of future incoming office supply include Spring Plaza Mall, Global Tech Exchange and Odom Tower. Both Spring Plaza Mall and Global Tech Exchange comprise centrally-retained offices whilst Odom Tower is sold on strata-title. Global Tech Exchange is a large-scale mixed development comprising office and hotel towers sitting atop a retail podium sited in Daun Penh District and contributing 52,283 sq m NLA of Grade A office. Whilst Spring Plaza Mall is a smaller-scaled office cum retail development sited in Sen Sok and contribute 8,390 sq m NLA of Grade C office.

Figure 6: Existing supply by District



Source: Knight Frank Research

Odom Tower is sited in Chamkarmon district providing strata-title office within a mixed condominium, retail and office development launched during H2 2020 and contribute 51,000 sq m Net Saleable Area (NSA) of Grade C office.

Despite the decelerated pace of new office supply during H2 2020, occupancy rates still slid by 7.5 percentage points from H1 2020.

Since the past three years bi-annual increment of new office supply, H2 2020 recorded a moderated pace of new addition. However, the overall average occupancy rate still dipped to 69.7%, a drop of 7.5 percentage points from the first half of 2020.

Since H1 2020, average occupancy rates for both centrally-retained and strata-title Grade A offices remained stagnant at 80% while Grade B and C offices both slid to 64% and 75%, respectively.

As at the end of 2020, centrally-retained offices remained the favorable choice for corporates and MNCs to lease from as it provides the flexibility and ease of expansion or contraction in terms of sizes in the event that any tenant wishes to expand or downsize. Thus, the average occupancy rate for centrally-retained offices was recorded at 77.7% as compared to strata-title office which was recorded at 25.9%.

Prices and Rental

Although advertised rental rates remained resilient, corporates began to initiate expansion and relocation plans as well as tenancy renewals in view of the tenant favourable market.

Landlords of both centrally-owned and strata-title offices are expected to increase flexibility in terms of rental and lease agreements to attract new tenants and retain existing tenants.

Advertised rental rates for Grade A, B and C offices range between US$30 to US$39 per sq m per month, US$21 to US$23 and US$14 to US$15, respectively (exclusive of service charges and tax).

The only strata-title office launched during H2 2020 is Odom Tower. Office units were launched at an average of US$3,000 per sq m of the NSA.

Office Sector Outlook

Unlike its regional neighbours, Cambodia has fared well so far in containing the virus and most business and economic activities were allowed to operate as usual as long as social distancing guidelines were adhered. Thus, office downsizing was not apparent as corporates were not forced to adopt the trending work-from-home orders which spared occupancy rates from any adverse drastic impact.

Even before the onset of the global pandemic, the office sector has been continuously challenged with supply outpacing demand. In a tenants' market, landlords are expected to increase flexibility on renewals, terms and conditions, negotiations and lease durations.

2020 ended on a softer tone for the global economy and foreign investments in Cambodia remain subdued leading to a lackluster of office transactions. It is anticipated to remain as such until the global pandemic withers down.

Notwithstanding, the news of successful oil extraction by KrisEnergy and GDP growth forecast by National Bank of Cambodia (NBC) ranged between 4.0% to 6.8% for the year 2021 may uplift investors' confidence. The commencement of oil extraction kick-started the oil & gas industry for the country and if managed and operated successfully, the industry will not only increase government's revenue but also attract foreign investments and MNCs to set-up operations in Cambodia which will be beneficial for the office sector.

Key findings

Five new malls officiated their opening during the second half of 2020 and contributed 62,042 sq m NLA to the existing stock.

As at H2 2020, the cumulative retail supply was recorded at 413,088 sq m NLA, a robust y-o-y increase of 22% over the same period of 2019.

Parallel to the increasing supply, vacancy rate too charted an upward trajectory and was recorded at 21% as at the end of 2020.

Subject to adherence to social distancing guidelines, most retailers and businesses were allowed to operate as usual apart from a notable event (November 28 event) of a community transmission which saw temporary closures of a prominent shopping mall and other retailers.

Despite the weak sentiment and reduced footfall, average rentals for prime and secondary grade malls remained resilient. However, stand-alone traditional shophouses used as retails began to witness rising closures due to lack of tourists which formed the bulk of consumers for these retailers.

Two newly added retail developments to our monitored stock during H2 2020 are Green Community Mall and Boeung Snor Food Village, contributing 20,587 sq m NLA. Retail supply over the next three years will witness a two-fold increase of retail supply to 909,008 sq m NLA.

The One Mall, Phnom Penh

PHNOM PENH RETAIL SECTOR

Although footfall traffic for retailers was impacted intermittently by isolated incidents of local viral transmission of the global pandemic, no mass foreclosures of major retailers were evident and occupancy rates for retail declined due to disequilibrium of supply and demand which stemmed from a sudden surge of mall completions towards the end of 2020.

Supply and Demand

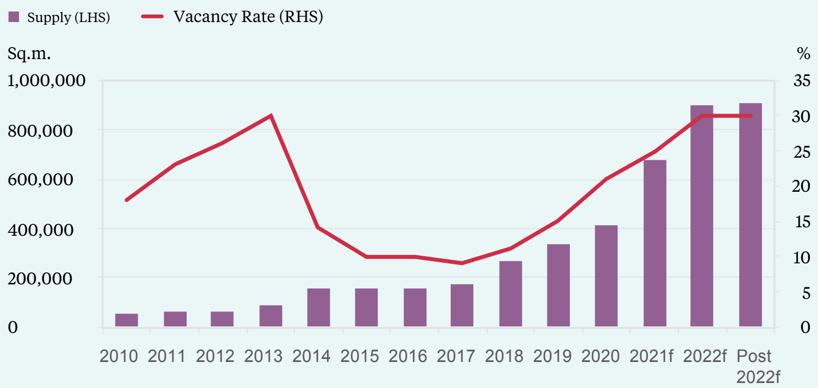
Five new malls opened during H2 2020; four of which were community malls whilst the other was a shopping mall. Collectively, the five malls contributed 62,042 sq m NLA to the existing retail supply in Phnom Penh.

The abovementioned four community malls were 313 Quayside (2,500 sq m), The One Mall (18,000 sq m), The Lane by One Park (9,000 sq m) and Boeung Snor Food Village (13,723 sq m) whilst another shopping mall is New City Walk (18,819 sq m). New City Walk was formerly known as Young Commercial Centre, sited in Chroy Changva and has been revamped and reconfigured to be sold on strata-title basis.

Fronting onto riverside, 313 Quayside is strategically sited in the tourist belt of Phnom Penh, in Daun Penh district with high footfall traffic, surrounded by tourist landmarks and nightlife spots whilst The One Mall is sited in Chamkarmon within close proximity to AEON Mall Phnom Penh and The Bridge podium mall. Also in Daun Penh district is The Lane by One Park. Although slightly further away from city centre, it is within the on-going satellite city of Phnom Penh City Centre and beside the Central Business District (CBD) of Phnom Penh. Whereas Boeung Snor Food Village is sited in Chbar Ampov, further off the city centre but surrounded by medium to high-end and well populated Borey developments. Catering to the local catchment, Boeung Snor Food Village attracted various international F&B franchises to take up tenancies.

Another new community mall has been added to our monitored basket, anticipated for completion during 2021. The Green Community Mall is located in Sen Sok district, a growing district further away from city centre, but increasingly popular due to its close proximity to AEON Mall Sen Sok. The impending supply coming online during 2021 will be overwhelming if all on-going projects are completed as scheduled.

Figure 7 : Phnom Penh Supply and Demand of Retail Space



Source: Knight Frank Research

Approximately 263,557 sq m NLA of retail supply will be coming online during 2021 whilst between 2021 and post 2022, another 232,363 sq m NLA will make an entrance, if all monitored projects launched or under construction are completed on schedule. Thus post 2022, the total retail supply balloon to 909,008 sq m NLA.

The geographical distribution of existing retail supply is split by 62:38 with city centre being the majority, compared to suburban, However, this distribution may equalise in the future with the incoming supply between 2021 and post 2022 indicating a reverse of existing trend with 67% located in suburban and remaining 33% in city centre.

By location, with the new community mall addition, Chamkarmon district is now on par with Sen Sok district, both with the most retail supply accounting for 22% of the overall supply, followed by 7 Makara at 21% and Daun Penh at 15%. The rest is distributed among Boeung Keng Kang, Toul Kork, Meanchey, Chbar Ampov, Chroy Changva and Porsenchey.

Retail leasing activity during H2 2020 remain subdued and is anticipated to be prolonged until an effective vaccine for the virus is found to improve consumer confidence. However, established F&B franchise brands are still actively looking to expand presence in new and well-managed malls to further reinforce their branding.

Landlords will be expected to incentivise such retailers as F&B is still the main crowd-puller to increase footfall. Additionally, the increasing incomes per capita in Cambodia attracted new premium international brands to set-up business and capture the niche market, evident by the new incoming retailers in Vattanac Capital mall such as Burberry, Bally and Balenciaga.

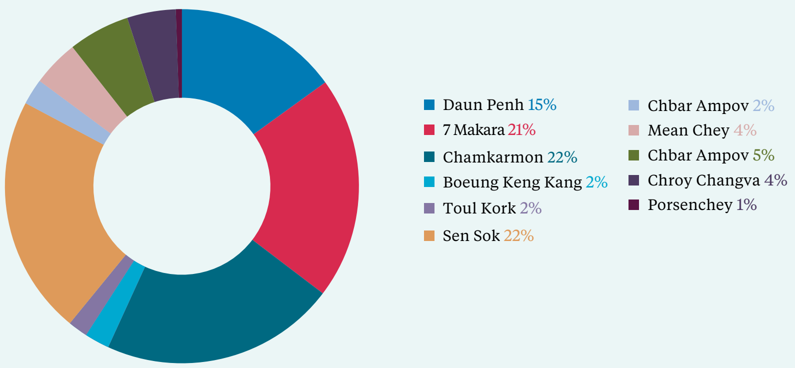
The challenge that remained for the retail sector, as it has been over the past years, is the disequilibrium between supply and demand. As a result of the surge of incoming mall completions during the second half of 2020, average occupancy rate further compressed to 79%, a y-o-y six percentage points drop since 2019.

Prices and Rental

Rentals for both prime and secondary grade shopping malls remained resilient since H1 2020 despite the drop in footfall traffic and intensified competition, ranging between US$27.00 to US$30.00 per sq m of NLA and ranging between US$21.00 to US$29.00 per sq m of NLA (excluding service charges and tax), respectively.

New City Walk's successful revamp and reconfiguration as a 6-storey strata-title shopping mall from the former Young Commercial Centre, opened and launched during the second half of 2020. Selling prices start from US$6,000 per sq m onwards of the Net Saleable Area (NSA) for the smaller retail lots.

Figure 8 : Distribution of Existing Retail Space by District



Source: Knight Frank Research

Retail Sector Outlook

Apart from the November 28 event of a viral outbreak within community transmission, Cambodia was spared from serious outbreaks and has fared well in containing the virus which allowed its citizens freedom of movement. Subjected to adherence to social distancing guidelines set by the government, during H2 2020, most retailers and businesses were allowed to operate as usual except for a few temporary closures of shopping mall and retailers. Although footfall traffic has undeniably declined intermittently due such the abovementioned incidents, no mass foreclosures of major retailers were evident during the entire second half of 2020.

Foreclosures among stand-alone traditional shophouses converted for use as retails however began to rise due to lack of incoming tourists which formed the bulk of consumers.

Many retailers by now have either established an online presence or in-process of cementing their platform. However, walk-ins are still the preferred method of shopping for consumers of fashion, lifestyle, beauty and home & living. These segments, together with the resumption of entertainment retailers such as cinemas, KTV, nightclubs, health centres and sport centres, managed to support and improved footfall traffic for most malls.

Mass foreclosures of both minor and major retailers will be unlikely as most landlords and shopping mall operators continued to co-operate with distressed retailers and work towards beneficial approach to both parties. Statistically, the pace of incoming supply during 2020 still surpassed demand. However, in this time of uncertainty, the shorter term outlook for retail sector will likely to be weary due to the impending supply over the next three years which is set to double the existing supply, assuming all projects complete as scheduled.

Key findings

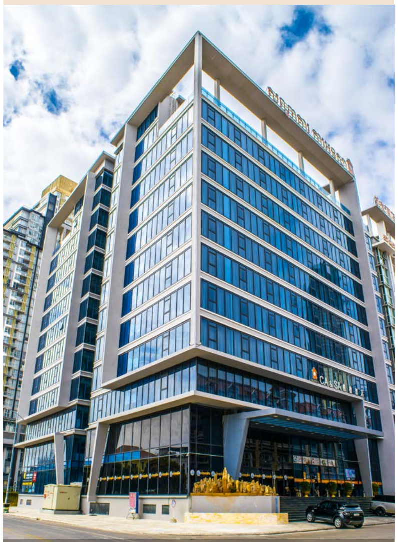
The rapid escalation of the new variant of Covid-19 has again heightened international travel restrictions and tourist arrivals plummeted by approximately 95%, resulting in historical lows in occupancy rates and ADRs.

Average occupancy rates of Luxury & Upper Upscale hotels ranged between 5% to 10% during H2 2020 whilst Average Daily Rates (ADR) dipped below US$ 100.

The government continued to implement stimulus measures to mitigate effects of the Covid-19 pandemic through financial support and tax exemptions.

Additional 216 keys were added to the existing stock through two new hotels in the Midscale & Economy Class taking the cumulative hotel supply to 11,943 rooms as at H2 2020, up 5% from 2019.

Occupancy rates, ADRs and RevPar are expected to face continued downward pressure whilst the 14 days quarantine period is in place upon arrival to Cambodia.



CA & SA Hotel, Phnom Penh

PHNOM PENH HOTEL SECTOR

Aviation, tourism and the hospitality industry were the hardest hit sectors globally throughout the Covid-19 pandemic and this was evident in Cambodia as the inbound arrivals plummeted by approximately 95%, during 2020

Supply

The cumulative supply of hotels increased to 11,943 keys with an additional 216 rooms across two new hotels within the Midscale & Economy segment in H2 2020.

Two new hotels were added to the existing hotel supply; CA & SA Hotel (150 keys) and TK View Hotel & Apartment (66 keys), both of which are classified in the Midscale & Economy class, taking the cumulative supply of hotels to 11,943 rooms in H2 2020, jumping up 5% from H2 2019.

CA & SA Hotel is located on Diamond Island, in Chamkamorn District whilst TK View Hotel & Apartment is located in Toul Kork District.

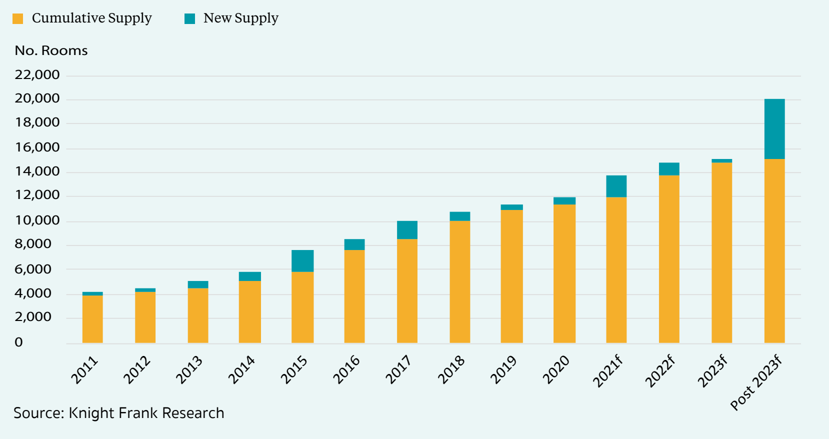
Additionally, the Poulo Wai Hotel & Apartment which was temporarily closed in H1 2020 now re-opened. The former of The Litz Hotel & Suite and Green Palace Hotel, located in 7Makara District, were rebranded as Marco Polo Hotel and Sunshine Holiday Hotel respectively; both of which are classified in the Upscale & Upper Midscale category.

Location-wise, Daun Penh remained the district with the highest concentration of hotels as it encompasses the CBD and the Phnom Penh riverside tourist belt. Daun Penh comprised 4,444 keys (37% of the overall market share) followed by Chamkarmon (23%), Boeung Keng Kang (10%), Chroy Changva (9%) and 7 Makara (8%). The remaining hotels are in Toul Kork, Meanchey and Porsenchey districts.

Despite the new additions, the category distribution remained the same with Midscale & Economy (3-star) dominating (51%) the existing supply. Luxury & Upper Upscale (5-star) and Upscale & Upper Midscale (4-star) hotels had slightly different market share at 25% and 24%.

Two hotels were added to our monitored future hotel pipeline during the second half of 2020; Soma Hotel Riverside (66 keys) and an unnamed hotel (170 keys), both of which are Midscale & Economy Class hotels.

Figure 9: Cumulative supply



Source: Knight Frank Research

Soma Hotel Riverside is located along Sisowath Quay in Daun Penh District. And unnamed hotel is invested by Chinese in Sen Sok District; both of which are estimated to complete in 2021.

Between 2021 and 2025, approximately 8,098 keys are expected to be added to the hotel supply, a large proportion of which will be contributed by Naga World 3 in Chamkarmon District. If all monitored projects complete as scheduled, the cumulative supply of hotels in Phnom Penh will rise to 20,041 keys which is an increase of 68% over the existing supply.

Occupancy rate and average room rates

Tourism and hospitality sector came to a virtual standstill during the second half of 2020 due to international travel restrictions.

The rapid escalation of the new variant of the Covid-19 virus heightened travel restrictions to prevent the further spread of the virus, causing foreign tourist arrivals to Cambodia to decline sharply by approximately 95% during the first five months of H2 2020, resulting in a significant occupancy decline for hotel accommodation.

The decline in occupancy rates as a result of Covid-19 along with the unprecedented events which unfolded has forced many hotel to close their doors since early 2020 and remained shuttered as at the end of H2 2020. Other hotel owners and operators have minimised operating costs by furloughing employees and operating a reduced number of hotel rooms.

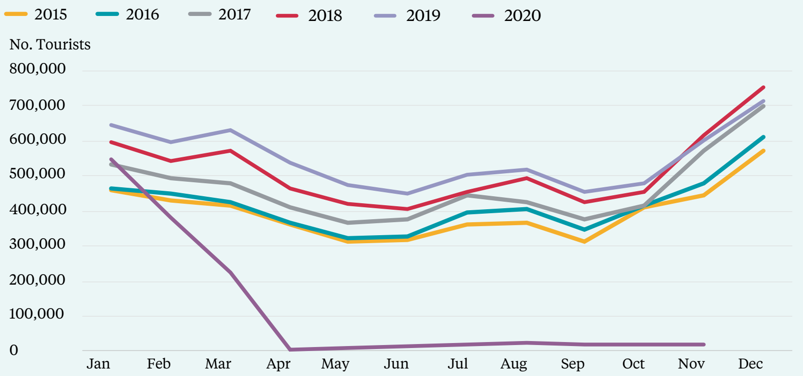
To remain afloat, a number of accomodations, hotel operators have worked with the government to provide quarantine spaces, namely Sokha Phnom Penh Hotel (5-star), Tian Yi International Hotel (4-star) and City Comfort Hotel Phnom Penh Airport (3-star).

Other, operators have focused on the growing domestic tourism market offering special packages for both short term and long term stays, with heavily discount rates of between 50% to 60% for local residents.

This led to a decline in occupancy rates of Luxury & Upper Upscale hotels and Average Daily Rates (ADR) dipped below US$100.

To mitigate the devastating effects of Covid-19 on businesses and employment market, the government has intervened with a number of stimulus packages. The measures included tax exemptions for the hospitality industry and tourism enterprises, including the payment of patent and the postponement of tax audits for 2020 by the General Department of Taxation, as well as suspension of seniority payment. The stimulus package will be ended at the end of March 2021.

Figure 10: International Tourist Arrivals to Cambodia



Source: Tourism Statistics Department, Ministry of Tourism

Hotel sector outlook

International tourist arrivals will remain subdued with the 14 day quarantine period still imposing, placing continued pressure on occupancy rates, ADRs and RevPar

Whilst the rollout of coronavirus vaccines temporarily boosted the global economic outlook, the spread of the new variant of coronavirus means travel restrictions will remain in place, stifling the recovery in the tourism sector.

To cushion the impact and prevent further closures, the government has worked hand-in-hand with the National Bank of Cambodia and launched a series of monetary and fiscal policies to assist tourism stakeholders including tax exemptions and increased liquidity for affected businesses/hoteliers.

Additionally, the government has revoked all previous bans on international inbound tourists but they must be quarantined for 14 days.

Notewithstanding, the hospitality industry will continue to be challenged until the global pandemic finally abates and all entry restrictions removed. Therefore, hoteliers will continue to focus on domestic tourism over the short term to off set the reduced numbers of international arrivals.

Key findings

As at H2 2020, the existing supply of serviced apartment increased to 6,850 units contributed by an additional 273 units across five new serviced apartments, indicating an increase of 14% as compared to the same period in 2019.

The additional 273 units were classified within the Mid-tier segment. Boeung Keng Kang District dominated new supply with 53% market share followed by Chamkarmon District (47%).

Asking rents remained stable amid the ongoing Covid-19 pandemic; however, occupancy rates declined significantly, by 20 percentage points during H2 2020 as compared to 2019.

Similar to the hotel sector, serviced apartments have been heavily impacted by Covid-19 in view of the limited number of expatriates coming to work in Cambodia during 2020.

Tulip Apartment, Phnom Penh

PHNOM PENH SERVICED APARTMENT SECTOR

Asking rents of serviced apartments remained resilient during H2 2020, however, average occupancy rates slumped by 20% during H2 2020 as compared with the same period in 2019.

Supply

An additional 273 mid-tier units across five new serviced apartments were added to the overall supply during H2 2020.

As H2 2020, the total supply of serviced apartment was recorded at 6,850 units as 273 mid-tier units across five new projects were added to the supply, indicating a growth of 14% as compared to the same period in 2019.

The five serviced apartments were SOHO Residence (49 units), LH Residence (80 units), Vira Apartment (26 units), Provence Apartment (60 units), and Tulip Apartment (58 units); all of which are categorised within the Mid-tier segment.

Of the additional units, 53% were located in Boeung Keng Kang District and 47% in Chamkarmon District.

Provence Apartment, Vira Apartment and Tulip Apartment, collectively contributed 144 units to the Boeung Keng Kang District supply whilst 129 units within SOHO Residence and LH Residence contributed to the Chamkamorn supply.

Boeung Keng Kang District continued to command the largest market share of the overall supply at 36%, followed by Chamkarmon (18%), Daun Penh (16%), Toul Kork (10%), 7 Makara (10%), Chroy Chongva (6%), Sen Sok (3%) and Mean Chey (1%).

Approximately 58% of the overall supply is categorised as Mid-tier, 22% is High-end and the remaining 20% is Affordable. The city centre continues to be the most sought-after location for serviced apartments. Approximately 90% of the existing supply is located within city centre districts whilst 10% are located in suburban districts.

An additional 1,236 serviced apartment units have been identified and will be added to the supply over the next two

Figure 11: Cumulative Supply of Serviced Apartments (2009 - 2022f)

Source: Knight Frank Research

years, reflecting an increase of 18%, assuming all identified projects complete as scheduled.

Rental

Asking rental prices has kept on resilient due to flexibility by onset of Covid-19 pandemic.

As unexpectedly decreased in tourists amid Covid-19, hotel operators have undertaken heavily discounted rates for long-term stay, what has intensified competition among serviced apartment operators. In additions, the significant increase in the supply of new condominiums has continued as the constant competition to serviced apartment.

Despite mentioned competition, asking rentals remained resilient with High-end rents averaging US$21 per sq m over the net lettable area, Mid-tier rents averaging US$13 per sq m and Affordable rents averaging US$7 per sq m. However, serviced apartment landlords and operators have continued providing promotions and discounts as well as free stay to entice long stay tenant. Additionally, hygiene and sanitation approach is promoted to get stay in safe on trust from tenant amid Covid-19.

Occupancy

As H2 2020, the overall occupancy rate fell sharply by 20% as compared with H2 2019, hitting a historic low of 59%.

Whilst the rollout of coronavirus vaccines temporarily boosted the global economy, the rapid outbreak of the new variant of the coronavirus placed increasing pressure on border controls and heightened travel restrictions, impacting on the local serviced apartment sector.

Correspondingly, international inbound tourist arrivals plummeted by roughly 95% in Q3 2020. This saw the average occupancy for serviced apartments decline to 59%, the lowest since Knight Frank began tracking the sector in 2008. This reflected a decline in occupancy of 20 percentage points as compared with the corresponding period in 2019.

By segment, High-end apartments were impacted the most, with the average occupancy rate recorded at 34% whilst Mid-tier and Affordable units recorded occupancy rates of 68% and 74% respectively.

Location-wise, Chamkarmon, Boeung Keng Kang, Daun Penh and Toul Kork Districts all recorded the highest occupancy rates averaging between 57% to 61% whilst 7 Makara, Chroy Changvar and Sen Sok were slightly lower ranging between 51% to 55%.

Serviced Apartment Sector Outlook

The short term outlook is bleak whilst travel restrictions are still in place and new coronavirus strains continue to emerge.

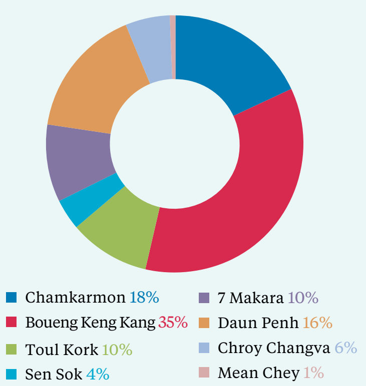
Even though asking rental prices remained resilient amid the ongoing Covid-19 pandemic, international travel restrictions severely impacted the sector and occupancy rates dropped to historic low.

To stimulate the economy, the government allocated a national budget for purchasing Coronavirus Vaccines, improving market sentiment however this has not help to encourage more international travel which is stifling the serviced apartment sector.

However, the government has re-opened educational institutions and many expatriates are starting to return to the Kingdom having secured jobs within the ever increasing number of international schools in Phnom Penh.

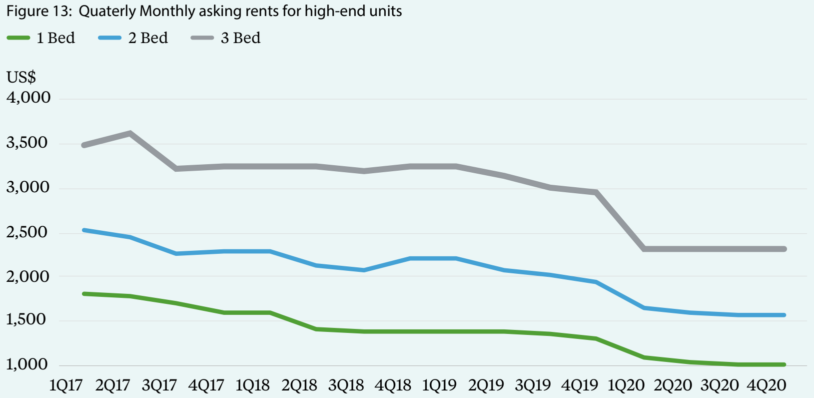
Despite the above, the serviced apartment sector will continue to remained subdued over the short term and both markets rents and occupancy rates will face downward pressure whilst travel restrictions remain in place.

Figure 12: Existing supply by District



Source: Knight Frank Research

Figure 13: Quaterly Monthly asking rents for high-end units



Source: Knight Frank Research

Key findings

The total condominium supply for H2 2020 stood at 24,101 units across 83 condominiums in Phnom Penh.

H2 2020 saw 6 new completions and welcomed into the market five new-off plan launches; Yuetai Tower White Swan Mansion, Oudom Residence, R&F City Miro, Prince Happiness Plaza and Grand Central.

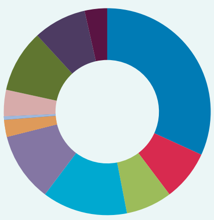
Knight Frank projected an increase of 53,471 units in the next three years, bringing the cumulative supply to 77,572 units by 2023. Within the future supply, 58% will be Mid-tier developments and 42%, High-end.

Chamkarmon has the highest concentrated condominiums (32%), being the most popular residential area of Phnom Penh.

With Covid-19 pandemic limiting the flow of travel, trades and investments, there was a decline in condominium demand. The sales rate for monitored projects was recorded at 5%.

With the recent approval of Covid-19 Vaccine by World Health Organization (WHO), developers see a promising future for condominium sector.

Figure 14: Existing Supply by Geographical Area



Source: Knight Frank Research

PHNOM PENH CONDOMINIUM SECTOR

With the recent approval of Covid-19 vaccines by the World Health Organization (WHO), condominium developers are optimistic and the sales rate is expected to improve in 2021

Supply and Demand

H2 2020 welcomed 6 completions and 5 new-off plan launches to the condominium market.

The Condominium Sector moderated in the second half of 2020 as the global Covid-19 pandemic continued. Six completions were added to the market, bringing the total cumulative supply in Phnom Penh up to 24,101 units across 83 developments; a y-o-y growth of 25% from H2 2019.

Located in the Southern part of Phnom Penh, Urban Village (Phase 1) is being developed by Urban Hub Cambodia. It is a Mid-tier condominium with a total of 828 units. Along with it, Residence L BTB 2 (220 units), Sun City Bassac (112 units), UK Condo 313 (113 units), Royal Park Condo (293 units), and Residence L BTB (600) were finished during the same period.

With Urban Village and 5 other condominium completions now in the existing supply stock, the ratio stood at 68:32 for Mid-tier and High-end, respectively. Currently, the monitored stock is yet to record any Affordable condominium developments.

Although the completion of Urban Village added to the total stock of Meanchey district, Chamkarmon remained the most popular residential area of Phnom Penh with 32% of stock. The second district with the highest share in the market is Sen Sok (13%), followed by 7 Makara (11%), Chroy Changva (10%), - Boueng Keng Kang (8%), Mean Chey (7%), and Toul Kork (7%). The districts with the least condominium developments are Daun Penh, Russey Keo, Porsenchey and Chbar Ampov, making up the remaining 4%.

In contrast to the first half of the year, the ongoing Covid-19 pandemic started to take a more serious toll on the Condominium sector during H2 2020. With the government announcements for certain business to be closed due to sudden outbreaks, the economy is struggling during this period of turbulence. It is an understatement to say that property developers are looking for better times to launch new projects. There was a total of 5 new off-plan condominium launches recorded during H2 2020.

Two of the launched projects were High-end residential buildings; Yuetai Tower White Swan Mansion (1,394 units) and Oudom Residence (138 units). Both of the condominiums are to be situated in the most prestigious residential areas of Phnom Penh, Daun Penh and Chamkarmon, respectively.

Grand Central Phnom Penh is a Mid-Tier development in the district of Porsenchey. It will be home to 850 units but as of Q3 2020, only 340 units were launched into the market. In addition to that, R&F City Miro and Prince Happiness Plaza are mid-tier developments with a total combination of 1,257 units.

Even though micro and macro economic setbacks were evident amidst the Covid-19 pandemic in H2 2020, many condominium developments are scheduled to be completed as planned and showed no signs of slowing down their progress. Over the next three years, the total cumulative condominium supply is projected to triple to 77,572 units post 2023 assuming all the monitored launched-developments are completed as planned and announced. Equaling to an increase in cumulative supply of 53,471 units.

Within the entire future supply including both the newly launched and on-going projects, Chamkarmon is forecasted to have the biggest market share of 20% post 2023. It is followed by Sen Sok (18%), Chroy Changva (14%), Mean Chey (12%), Toul Kork (10%), Boueng Keng Kang (9%) and 7 Makara (7%). The remaining districts of Daun Penh and Russey Keo have a market share of 3% while Porsenchey and Chbar Ampov, 2% each.

By post 2023, the condominium market in Phnom Penh will be dominated exclusively by Mid-tier and High-end developments. Developers are aware of the growing demand for the Mid-tier market as more and more young families are now drawn toward the modern designs and vertical living concept. As a result, Knight Frank recorded a split of the future market between the two categories at 58:42 with Mid-tier projects in the lead.

Evidently, overall sales rate during H2 2020. With the global Covid-19 pandemic impacting the global economy, quite a number of condominium projects were delayed and will rollover. The average sales rate of monitored projects declined from 7% in H2 2019 to 5% in H2 2020. In comparison to previous years, the rate is relatively low as developers used to achieve up to 20%.

Prices and Rental

Price of New off-plan condominium launches in H2 2020 remained stable despite the Covid-19 Pandemic restricting travel of foreign investors

Notably, it was a difficult year for condominium developers to maintain the average sales rate. Developers offered discounts and incentives to purchasers to boost the rate but at the same time, maintain the price of the developments. In fact, there was not a price drop in the average selling price recorded at $2,223 per sq m over the net saleable area during H2 2020.

Known as a condominium with an attractive and modern living concept, Oudom Living is a 29-storey High-end residential project developed by Urban Living Solutions. The location of the building is situated in the heart of Phnom Penh in the district of Chamkarmon. Once completed in 2024, Oudom Living will be home to 138 families and buyers. Their units are priced at an average of $3,500 per sq m over the net saleable area. The total selling price start from $250,000 for a 1 bedroom and up to around $1,000,000 for a 4 bedroom unit.

Launched in 3Q 2020, Yuetai Tower White Swan Mansion is a High-end residential project located in the prime area of Daun Penh. It is being developed by Yuetai Group, comprising 2,788. The average selling price stands at $2,500 per sq m.

Grand Central Phnom Penh is a Mid-tier condominium development priced at approximately $1,300 per sq m for their units. Similarly, the average selling price for R&F City Miro by R&F Group is approximately $1,500 per square meter. On top of the reasonable pricings in popular locations, discounts and lower installments are also offered to attract purchasers from both the local and overseas market.

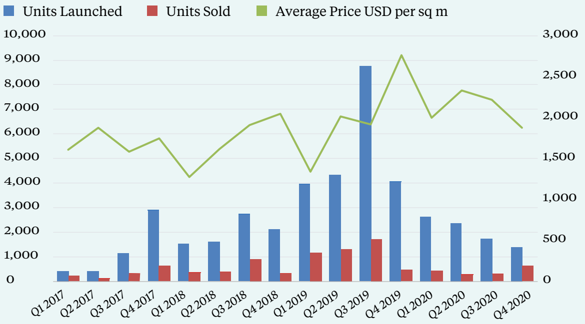
Condominium Sector Outlook

The economic uncertainty impacted on demand for Condominiums during 2020 but developers are optimistic for 2021

Since early 2020, the global economic uncertainty has been a product of the Covid-19 pandemic. The outbreak brought sudden interruption to the economy and limited the flow of investments, trades and travel. This led to a fall in demand for condominium.

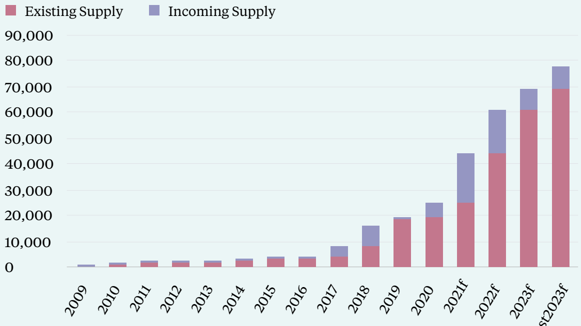
The above withstanding developers are optimistic in view of the American/ German vaccines for the virus being approved by World Health Organization (WHO) and being used in many developed Quarter. This is in the light that the vaccines will be brought to the kingdom as Cambodian Prime Minister stated in many of his press conferences and things will be back to normal. By then, the condominium sector can pick up its sales rate as it recovers and be growing in its full capacity.

Figure 15: Sales of Newly Launched Condominiums By Quarter



Source: Knight Frank Research

Figure 16: Cumulative Supply (2009 - Post 2023)



Source: Knight Frank Research

Key findings

A total of 11 housing completions were added to the existing supply in Phnom Penh and 12 off-plan projects were launched, simultaneously.

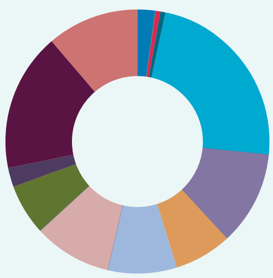
The existing supply is now up to 63,913 units and an additional 17,327 units are projected to be on the market by post 2022 assuming all announced developments finish as scheduled.

Mid-tier developments account for the biggest market share at 52%, followed by Affordable at 37% and High-end, 11%.

Developers are drawn toward housing in suburban areas due to the price and availability of the land, thus 97% of the entire market share is situated in suburban areas of the city with the remaining units in the city center.

The average selling price was $1,150 per square meter for a Mid-tier development.

Figure 17: Distribution of Existing Landed Housing Supply by District



Source: Knight Frank Research

PHNOM PENH LANDED HOUSING SECTOR

Despite the heavy impact on real estate sectors due to the Covid-19 pandemic, Landed Housing sector activity still remained positive, indicated by 12 new developments launched as at H2 2020

Supply and Demand

The market continued to welcome new launches and housing completions amidst the pandemic; cumulative supply now at 63,913 units

Among all property sectors in Phnom Penh, the Landed Housing sector was able to maintain stable growth and achieving the highest sales rate during the Covid-19 pandemic. As of H2 2020, 11 new completions were welcomed into the market, bringing the total existing supply to 63,913 units across 164 developments. In addition to the H1 2020, a total of 23 completed housing projects were added in 2020.

The above-mentioned 11 projects provided an additional 4,612 units to the monitored supply; these included The Wood by Natha Residence (88 units), Borey New Hope (600 units), Borey Kour Srov 3 (1,555 units), Borey Kour Srov 3 Tmey (1,200 units), Borey Mongkol Phnom Penh 5 (320 units), Borey De Castle (90 units), Galaxy Residence (95 units) and Borey Ung Modern House (300 units).

Within the existing stock, Mid-tier housing continued to dominate the market share with 52% (33,485 units) followed by Affordable at 37% (23,969 units). High-end residential projects accounted for the smallest supply share, with the remaining 11% (6,732 units). From that, 96% of the supply is located in the Suburban area of the city and only 4% in the City Centre.

All housing projects are divided geographically by districts. The highest concentrated of housing was in Sen Sok with 23% (14,692 units), followed by Dangkao 17% (10,840 units), Russey Keo 12% (7,391 units), Kamboul 11% (7,198 units), Mean Chey 11% (6,120 units), Chbar Ampov 8% (5,403 units), Chroy Changva 7% (4,492 units), Por Senchey 6% (3,980 units), Prek Pnov 2% (1,505 units) and Chamkarmon 2% (1,214 units). The remaining 1% is shared between the four districts; namely 7 Makara, Daun Penh, Toul Kork and Boeung Keng Kang.

With economic growth comes higher disposable income which is evident in Cambodia. More and more middle class buyers are looking to purchase their own homes pushing developers to want to meet the newly identified demand. The cumulative housing projects in Phnom Penh are expected to surpass approximately 81,240 units by post 2022; across 219 developments. It is an increase of 17,327 units from the existing 63,913 units. The above-mentioned cumulative supply is to be distributed between Mid-tier, High-end and Affordable at 57%, 10% and 33%, respectively.

The majority of future housing projects will be concentrated in the district of Sen Sok (22%) and it is becoming a very popular and busy residential area. A number of selected districts with the most developments included Dangkao (16%), Kaboul (12%), Mean Chey (11%) and Chbar Ampov (10%). Overall, Suburban area will comprise 97% of the total supply with the remaining in Phnom Penh city center.

Unlike other property sectors, Housing developers were able to maintain healthy sales rate amidst the pandemic as it is mostly driven by domestic demand rather than from overseas. Many of the new off-plan launches were well-received by the local market during H2 2020. 11 were mid-tier developments while Borey Angkor Phnom Penh Premier was the only High-end project during the second half of 2020.

The remaining launched projects were all Mid-tier, namely Natha Residence The Boulevard (248 units), Orkide Pochentong (1,000 units), Borey Booyong Sen Sok (716 units), Borey Golden Key (40 units), La Palm Residence (154 units), Borey LHL (180 units), Vimean Sakura (80 units), Ly Sovann (750 units), ND Residence (255 units), Borey Phnom Penh Sok San Relax (500 units), The Residence (296 units).

In late 2020, Phnom Penh recorded its first community outbreak of the Covid-19 virus, known as the November 28 Community Event. It put things into a sudden and abrupt standstill, impacting many businesses. The property sector was no exception and the sales rate dropped; the overall sales rate for landed housing was recorded at 21% during the third quarter of the year, but declined to slightly over 10% for the forth quarter during the outbreak community spread.

Prices and Rental

The average selling price remained unaffected at approximately $1,150 per sq m as financial incentives and flexible loans being offered helped maintain sale rates

Driven by strong local demand, the Housing Sector was not as impacted by the sudden economic fallout by the Covid-19 pandemic. Despite the slight decline in the overall sales rate, a price correction was not evident as landed housing remained the preferred choice of living for Cambodian population. As of H2 2020, the average selling price remained stable compared with the first six months of the year. The price was recorded at an average of $1,150 per square meter.

Along with many other Mid-tier projects launched during H2 2020, Natha Residence the Boulevard, a mid-tier project by Natha Residence, had an average selling price of $1,130 per square meter, whilst the average selling price for High-end project was approximately $2,100 per square meter.

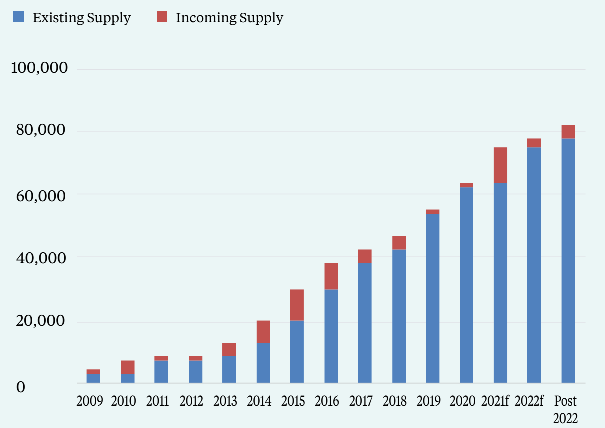
Landed Housing Sector Outlook

World Health Organization (WHO) authorised the use of Pfizer Biotech Covid-19 Vaccine, giving developers renewed optimism

Despite the uncertain longevity and the impact on the real estate market caused by the Covid-19 outbreak, major housing developers remain confident indicated by their continued new launches and projects completions. Underpinned by the proven track records and strong real estate branding that they have built after years of operations, leading developers such as Chip Mong and Peng Houth Group thrived to deliver the quality they promised in spite of economic turbulences for the past year.

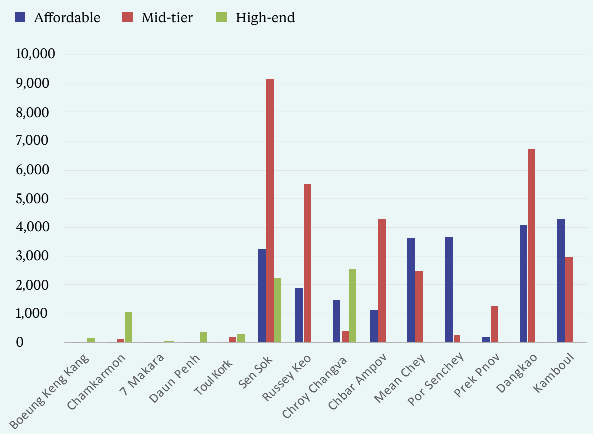
With the World Health Organization (WHO) recently approving the Pfizer Biotech Covid-19 vaccine as safe and effective to use, it has given a boost of confidence to both buyers and developers.

Figure 18: Cumalative Supply of Land Housing Units (2009-Post 2022f)



Source: Knight Frank Research

Figure 19: Existing Supply by Location and Classification



Source: Knight Frank Research

Recent Market-Leading Research Publications

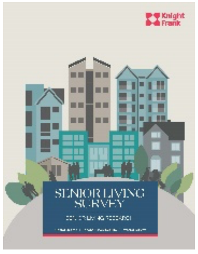
Global Buyer Survey 2020

The London Report 2020

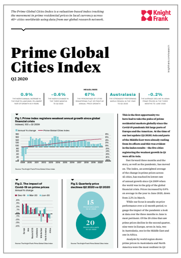
Global Development Report 2020

Global Occupier Market Dashboard Research Q2 2020

The Wealth Report 2020



Senior Living Survey



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We like questions, if you've got one about our research, or would like some property advice, we would love to hear from you.

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